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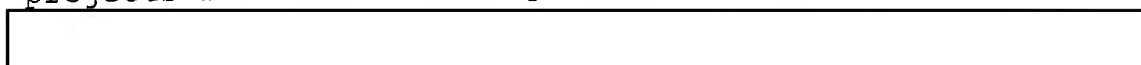
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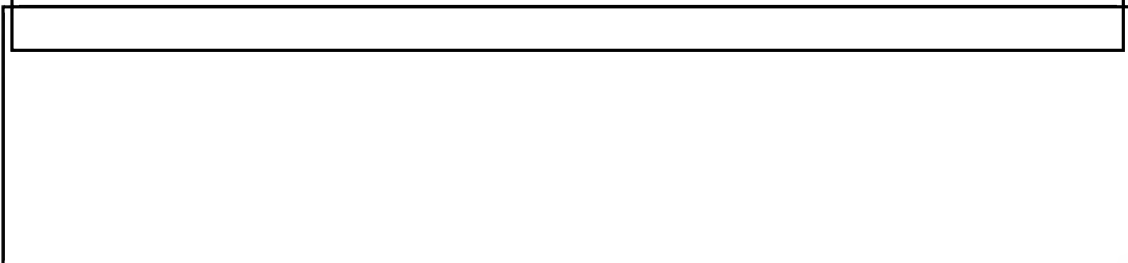


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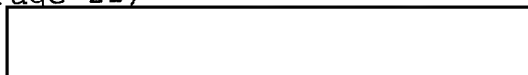


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EUROPEAN COMMUNITIES: The European Community is proceeding with plans to explore prospects for extensive cooperative projects with the Arab states, despite the uncertainty created by shake-ups in a number of EC governments and US dissatisfaction with an independent EC approach to the Middle East. The Nine have clearly demonstrated unanimity in supporting this move and are likely to give it their final approval at a meeting of foreign ministers on March 4. If a new Labor government comes to power in Britain, however, it may request this meeting be postponed. The Nine point out that

- the European move would complement US policy;
- the practical effect of the Nine's efforts will, in any case, be long term;
- the attempt is necessary to heal the rift with France within the community.

Under the plan, the West Germans, who now hold the chairmanship of community bodies, would initiate talks with the Arab states to explore the possibilities of cooperation in such fields as industry, agriculture, energy, raw materials, science and technology, financial cooperation, and vocational training. This would be followed by the establishment of joint commissions and a meeting of the EC and Arab foreign ministers next fall.

At the same time, the EC governments participating in the follow-up work of the Washington energy conference are responding cautiously to the agenda proposed by the US at the first organizational meeting of the Energy Coordinating Group earlier this week. Reaction is tentatively favorable to the US suggestion that the OECD High Level Group handle the first three items--conservation and demand restraint,

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accelerated development of conventional energy resources, and oil sharing. The Italians and Dutch point out, however, that problems may arise because some states which are included in the coordinating group are not members of the High Level Group. The French and Irish argue that all OECD members should participate in the discussions.

The EC governments are still developing their positions on the more controversial aspects of the agenda. Proposals that ad hoc groups or the coordinating group itself handle such matters as energy research and development and producer-consumer relations will encounter objections from EC members who are opposed to the establishment of new international groups to handle the energy crisis. The next coordinating group meeting is scheduled for Brussels on March 13-14.

Meanwhile, French Foreign Minister Jobert told a newspaperman in Paris that he planned to propose a cooperative Franco-German enterprise on energy during a visit to Bonn this week, but he did not give any details. [REDACTED]

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* ETHIOPIA: The situation in Ethiopia has begun to stabilize. The number of troops in Addis Ababa has been reduced, army units guarding key points have been replaced by police, and roadblocks have been lifted.

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Leaders of the military dissidents have decided to enter into direct negotiation with Emperor Haile Selassie. Their demands, which the Emperor reportedly has already accepted, call for educational, economic, and land reform and the prosecution of corrupt officials. These demands are for the most part not new, but they were largely ignored by the former government.

Some of the dissidents pressed for the ouster of Prime Minister Endalkatchew, but the majority favored an accommodation. The demand for Endalkatchew's removal could be renewed, however, if the new government fails to carry out the promised reforms. Endalkatchew has enhanced his position by taking a conciliatory stance toward demands for reform and has promised to take into consideration talent, youth, and experience in appointing the rest of the cabinet.

The growing opposition of students, teachers, and labor unions to the new prime minister, however, introduced a new element into the situation. A major demonstration yesterday by students opposing Endalkatchew was dispersed by army units wielding clubs. The students had marched on Jubilee palace, the Emperor's residence, calling for Endalkatchew's ouster, land re-

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form, free elections, and freedom of the press. Another demonstration was dispersed by police with tear gas. The teachers' association then announced its opposition to Endalkatchew. The teachers evidently will resume their ten-day-old strike.

The US Embassy in Addis Ababa reports that the Ethiopian labor federation shares the sentiments of the teachers and students.

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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*ITALY: Leaders of Italy's four center-left coalition parties will meet this weekend to determine whether Prime Minister Rumor's government can be preserved. If these efforts fail, Rumor will probably step down. According to one report, he may do so today.

The Republican Party directorate yesterday endorsed Treasury Minister La Malfa's withdrawal from the government, but refused to accept his resignation as party leader. Although the directorate stopped short of promising to support the government in parliament, it indicated that the Republicans would "act responsibly," a tactic used in 1971 to keep a center-left coalition alive for almost a year after a similar Republican withdrawal.

To keep the party's support Rumor will have to mediate the long-festering dispute between the Republicans and the Socialists over basic economic policy that led to La Malfa's resignation.

So far, however, no one has suggested dissolving parliament and holding new elections. Party leaders reportedly fear the electoral repercussions of the energy shortage, inflation, austerity measures, and a simmering scandal involving alleged pay-offs to politicians by the oil companies. [REDACTED]

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SPAIN: Prime Minister Arias' actions on two fronts are likely to complicate his efforts to improve the political climate.

Archbishop Anoveras of Bilbao has been placed under house arrest following the reading of a pastoral letter in all Basque province churches on February 24 calling for "just freedom" for the Basque people.

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The government is also preparing to deal with large-scale demonstrations to protest the execution of a convicted anarchist. The Supreme Court of Military Justice last week upheld the death sentence of Salvador Puig Antich, who was convicted for killing a policeman last September. The case is now before the cabinet for confirmation or commutation. According to some sources, the government has approved the death sentence and will announce the decision after the cabinet meeting on March 1.

The sentence must be carried out within 12 hours after the announcement, although General Franco could still intervene to commute the sentence. The latest indications from Madrid suggest that he will not do

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WEST GERMANY: The first of several West German state elections this year will be held in Hamburg on Sunday. Local issues and personalities will predominate in each, but the outcomes could have larger implications.

The Hamburg election--the first major test of voter attitudes since the national election of November 1972--comes at a time when public support for the Brandt government seems to be slipping. Although the campaign has been practically devoid of national issues, national party leaders will nevertheless be watching Hamburg closely for signs of shifts in public support for the major parties.

Aware of the risks involved in becoming too closely identified with the Social Democratic Party and its problems on the national level, the Hamburg SPD has carefully restricted its campaign to local issues, and the other parties have largely followed suit. The governing Social Democrats are trying to preserve their absolute majority and maintain their long-established hold on city hall. Local party leaders admit they are having to fight for every vote. Led by Erik Blumenfeld, who is prominent on both the state and national levels, the opposition Christian Democrats have made a particularly strong bid for popular support by exploiting SPD vulnerability on such local issues as the controversial SPD patronage system, urban decay, and inflation. The Free Democrats, on the other hand, are hoping that the Hamburg vote will confirm the recent national polls suggesting increased public support and have tailored their campaign to attract the votes of disenchanted SPD voters.

Whether the tactics of the two smaller parties will pay off is open to question. The Social Democrats are expected to retain their absolute majority, although they may emerge two to three percentage points down from the 55.3 percent of the vote they obtained in 1970. Public dissatisfaction with some aspects of the local SPD government is expected

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to be more than offset by: the almost continuous SPD record in public office since the war; the Hamburg voters' preoccupation with pragmatic questions of administration rather than larger policy issues; and the strong sense of SPD voting tradition. [REDACTED]

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JAPAN: The central bank has tightened credit further on a selective basis, but the head of the bank hinted that the credit squeeze may be eased soon. On February 28, the central bank ordered major commercial banks to cut lending \$100 million below the ceiling previously imposed for the first quarter, leaving it 37 percent below the first quarter of 1973. Moreover, the central bank stipulated that half the cut be imposed on lending to ten large trading companies and that banks not finance speculative activity.

The move was explained as an effort to clamp down on pockets of excess liquidity. It also may be designed to force firms to unload speculative stockpiles and to allay mounting charges of government-business collaboration. This measure coincided with the release of government figures showing that gross national product increased 24.5 percent in calendar year 1973, 11 percent in real terms, and the remainder in higher prices. Real growth slowed at year end, but prices surged.

Monetary restraints may have to be relaxed soon to avoid an excessive slowdown in economic activity. Sharp January drops in orders for machine tools and construction indicate that investment spending will slow sharply. At the same time, consumer spending is weakening, and the government is holding down outlays for public works. Wholesale prices stabilized in mid-February, a sign that inflation may have begun to slow. Sharply increased oil import prices will drain a large amount of purchasing power from the economy over the remainder of the year, further reducing domestic demand. [REDACTED]

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IRAN-FRANCE: Iran has ordered six La Combattante II missile-armed patrol boats from France, valued at more than \$100 million. The ships reportedly will incorporate several Iranian Navy modifications, including the installation of the US STANDARD/HARPOON missile system, Italian OTO MELARA gun-mountings, and a Dutch fire-control system.

The La Combattante II, similar to the Saar-class missile boat sold by France to Israel, is both larger and faster than the Soviet OSA-class patrol boat. Once in service, it will more than offset the threat of Iraq's OSAs, as well as help protect Iran's offshore oil facilities. Because of the large number of orders for this patrol boat, however, delivery to Iran may not take place for two to three years.

The purchase of the patrol boats moves Iran a step closer to the Shah's announced goal of quadrupling Iran's naval fleet by 1978. In the last two years, Iran has purchased but not yet received from the UK two guided-missile frigates, four missile-armed Hovercraft, two multi-purpose support ships, and a cruiser which can operate helicopters and V/STOL aircraft. In addition, Iran has purchased but not received three destroyers from the US and two cargo/tanker logistic support ships from West Germany. [REDACTED]

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GUATEMALA: The governing coalition candidate, General Kjell Laugerud, has the best chance of winning what is expected to be a close presidential election on March 3. Laugerud's campaign managers, led by President Carlos Arana, appear reasonably confident that he will win a plurality, or at least come close enough to permit them to rig the results without being too obvious.

Laugerud's chief opponent is General Efraim Rios of the leftist National Opposition Front. The other contender is Colonel Ernesto Paiz of the centrist Revolutionary Party. If, as seems likely, no candidate wins a majority, the Congress must decide between the top two vote-getters. On two occasions in the recent past Congress picked the front runner, but this is not mandatory. Should Laugerud come in a close second to Rios, there would be considerable pressure on the government-controlled legislature to choose him anyway.

Rios supporters are convinced that some fraud will be used. If their candidate loses by a narrow margin, they are likely to try to stage protest demonstrations, and an unstable situation could develop. Although senior army leaders are opposed to Rios, they want no part of a blatantly fraudulent election.

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INDIA: The outlook for India's spring grain harvest has been dimmed by abnormally dry weather during January and February. Shortages of electrical power and diesel fuel have hampered irrigation; wheat rust, which has reduced the spring harvest in recent years, has reappeared.

The US agricultural attache has modified downward his estimate of the total 1973/74 grain crop to 108 million tons. Although this would approximate the record output of 1970/71, it would be sufficient only to sustain already low per capita consumption levels and will not allow the government to rebuild buffer stocks.

The deteriorating prospects for the spring harvest, the slow rate of progress in government procurement of grain from last fall's bumper harvest, and unexpected increases in wholesale prices between September and December--when the harvest normally brings a decline in prices--have prompted New Delhi to purchase 100,000 tons of Australian wheat. This is India's first foreign grain purchase since Moscow agreed last October to loan two million tons.

[REDACTED]

There is no firm indication that India is planning to buy US grain, although some US dealers anticipate Indian purchases by summer. New Delhi may be waiting in the hope that prices in the US will fall as the new crop is harvested. Although the delay also would give India a better chance to assess its spring harvest, it could result in the recurrence of food riots.

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